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C O R R E C T E D C O P Y (ADDED CAPTION)

SIPDIS

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SUBJECT: AFGHANISTAN REPORTS BETTER THAN EXPECTED ANNUAL REVENUES

SUMMARY

¶1. (U) On January 23, 2010, the Deputy Minister of Revenues and Customs, Mr. Gul Sabit, unofficially reported that annual revenues for Afghan fiscal year 2010 are likely to be in excess of the 54.5 billion Afghanis (USD 1.09 billion) target set by the IMF. Estimates from the Ministry of Finance project that revenues are likely to top 64 billion Afghanis (USD 1.28 billion), 17 percent more than target and 60 percent over 2008-09. As of January 21, 2010, Customs revenues reportedly met their annual target (set by the IMF) of 20.1 billion Afghanis (USD 402 million) two months early. It is estimated that 5 billion additional Afghanis (USD\$100 million) will be collected through Customs receipts alone by the end of the Afghan fiscal year ending on March 21, 2010. This increase will help GIROA to reduce its dependence on operational budget support from international donors, and to build its capacity to fund and manage its own budget functions.

¶2. (U) Over the past several years, the USG has provided substantial revenue collection, budget execution, and fiscal reform assistance to the Ministry of Finance and Afghanistan Customs Department, contributing to improvements in the country's revenue performance and expanding its budget capabilities. USAID, Treasury, State, and the Border Management Task Force (BMTF) have each played a pivotal role in this process and continue to work closely with the Ministry of Finance and its subordinate offices through tax, non-tax, and customs reform programs. Other donors, including IMF, DFID, the EU, and the World Bank, also contribute to revenue collection reform efforts. Moving forward, the USG will continue its fiscal reform agenda, as well as support domestic production and services to drive exports and broaden the domestic tax base to create a more balanced fiscal system. END SUMMARY.

AFGHANISTAN CUSTOMS REVENUES BEAT EXPECTATIONS

¶3. (U) Unofficial figures show total Customs revenue collection in the first nine months of the current Afghan fiscal year were 20.1 billion Afghanis (USD\$402 million), meeting the annual target two months early. This is the first time Customs revenue has met its target prior to the end of the fiscal year. It is estimated that 5 billion additional Afghanis (USD\$100 million) will be collected through Customs receipts by the end of the Afghan fiscal year (March 21, 2010).

¶4. (U) The impressive revenue increase is a result of better governance and various revenue enhancement measures that GIROA has initiated over the last year, including:

--strict performance monitoring of regional directors by the Customs

Department headquarters in Kabul,
--shifting/removal of several incompetent and corrupt officials from sensitive posts,
--improving Customs Officers' access to the Ministry of Commerce state-owned Fuel Liquid Gas Enterprise (FLGE) installations at Heiratan and other points of entry,
--rolling out the ASYCUDA transit and declaration processing system to Custom Houses at Torkham Gate, Jalalabad, Kabul Inland Customs Depot, Kabul Airport, Heiratan/Mazar, Islam Quala/Herat, and Shirkan Bandar,
--more vigorous checks by Mobile Verification Teams (MVTs) - the Afghan Customs Department's primary enforcement mechanism,
--improving implementation of post clearance audit,
--instituting daily revenue collection reporting system, and
--capacity building of officers engaged in critical work such as data analysis and enforcement.

¶5. (U) While all the major Custom Houses showed increased collections, the most significant improvements were in Herat, Jalalabad, and Mazar. This was a result of close monitoring of performance and other administrative and revenue enhancement measures taken during the year. In addition, the Afghan Customs Department Customs Statistics Unit (CSU), assisted by USAID, established a systematic Customs data collection and reporting system. The Unit is playing a vital role in ACD control over revenue and providing on time trade statistics.

INCREASED REVENUE IMPACT ON AFGHANISTAN'S
OPERATIONAL BUDGET

¶6. (SBU) The Ministry of Finance's Revenues and Customs Department estimates that annual revenues will top 64 billion Afghanis (USD\$1.28 billion) this fiscal year, 17 percent more than targeted and 60 percent over the previous year. Customs Revenues make up 39 percent of all government revenues. Deputy Minister Sabit believes that if GIROA can maintain this positive trend, Afghanistan will be able to fund its own operational budget from domestic revenues within the next three years. More realistically, the World Bank projects 79 percent fiscal sustainability in 2014/15, and the IMF projects this by 2022/23.

REVENUE PICTURE INCOMPLETE; EXPANSION
OF DOMESTIC PRIVATE SECTOR IS KEY

¶7. (SBU) On a less positive note, Afghanistan's recent Customs revenue jump is linked to an increase in collections as well as imports, which is indicative of Afghanistan's weak domestic production capability and stagnant exports. In the medium-term, Afghanistan's fiscal sustainability must come from stronger domestic economic growth and a broader private-sector tax base. USAID is expanding its business development and job creation programs to assist Afghanistan to enhance its economic performance. USAID is also supporting the establishment of Medium Tax-payer Offices (MTO) in provincial economic centers to enhance tax collection efforts and broaden Afghanistan's tax base. Together these will drive economic output, exports, and domestic tax revenues.

¶8. (SBU) The USG is committed to continuing its fiscal reform assistance to GIROA through tax, non-tax, and customs revenue and budget management and execution assistance that emulate international best practices. Proposed assistance includes reforms in legislation, tariffs, policies and procedures; international cooperation on infrastructure and information management; and human capacity development, enforcement, and strategic planning. U.S. assistance has created and will continue to create conditions for better efficiency in revenue collection, with a direct and positive impact on the GIROA's fiscal resources.

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